

FINANCIAL SECTION

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Financial Section

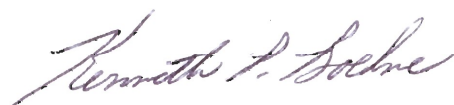
Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2005. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB has continued high quality financial management and financial reporting during fiscal year 2005. During the year, the RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2005. This is the 6th consecutive year that our auditors have issued a clean opinion on the agency's financial statements. In addition, although the OIG disclaimed an opinion for fiscal year 1999, on February 2, 2001, it removed its disclaimer and issued a clean opinion on the principal statements for that year as well.
- Continued to accelerate the preparation and presentation of financial information. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB within 21 days of the end of the quarter. The process of preparing quarterly statements has helped us in improving the timeliness and quality of the agency's annual financial statements.
- Continued our planning for the transition to a new financial management system. Initial efforts have focused on evaluating the potential costs of migrating to off-the-shelf software that meets the standards established by the Joint Financial Management Improvement Program and monitoring the progress of other Federal agencies that are also planning for or implementing new financial management software. During fiscal year 2006, we intend to evaluate various migration options which will include a requirements analysis. Transition to a new financial system is tentatively planned for fiscal years 2008/2009.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.



Kenneth P. Boehne
Chief Financial Officer
October 27, 2005

**RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2005 AND 2004**

	FY 2005	FY 2004
ASSETS		
Intragovernmental:		
Fund Balances with Treasury (Note 2)	\$74,888,380	\$39,053,767
Investments (Note 3)	1,265,204,565	1,304,375,721
Accounts Receivable (Note 4)	3,736,301,894	3,798,657,639
Total Intragovernmental	5,076,394,839	5,142,087,127
Accounts Receivable, Net (Note 4)	27,435,248	26,124,892
Inventory and Related Property, Net (Note 5)	98,949	123,414
General Property, Plant and Equipment, Net (Note 6)	1,582,043	1,879,913
Other (Note 7)	42,686	29,401
TOTAL ASSETS	\$5,105,553,765	\$5,170,244,747
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	\$453,850,000	\$421,430,600
Debt	3,041,835,141	3,026,669,568
Other	912,793	941,907
Total Intragovernmental	3,496,597,934	3,449,042,075
Accounts Payable	530,137	430,629
Benefits Due and Payable	795,282,599	779,153,135
Other	292,241,900	181,011,504
Total Liabilities	4,584,652,570	4,409,637,343
NET POSITION		
Unexpended Appropriations	11,802,025	12,806,549
Cumulative Results of Operations	509,099,170	747,800,855
Total Net Position	520,901,195	760,607,404
TOTAL LIABILITIES AND NET POSITION	\$5,105,553,765	\$5,170,244,747

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Program Costs:		
Railroad Retirement Program		
Intragovernmental Gross Costs	\$191,475,166	\$201,251,356
Less: Intragovernmental Earned Revenue	<u>7,245,977</u>	<u>5,693,915</u>
Intragovernmental Net Costs (Note 9)	184,229,189	195,557,441
 Gross Costs with The Public	 9,272,039,088	 9,101,110,082
Less: Earned Revenues from The Public	<u>612,296</u>	<u>659,482</u>
Net Costs with The Public	<u>9,271,426,792</u>	<u>9,100,450,600</u>
 Total Net Costs	 9,455,655,981	 9,296,008,041
 Railroad Unemployment and Sickness Insurance Program		
Intragovernmental Gross Costs	4,580,665	4,864,915
Less: Intragovernmental Earned Revenue	<u>0</u>	<u>0</u>
Intragovernmental Net Costs (Note 9)	4,580,665	4,864,915
 Gross Costs with The Public	 114,228,720	 128,280,100
Less: Earned Revenues from The Public	<u>29,422,262</u>	<u>32,758,883</u>
Net Costs with The Public	<u>84,806,458</u>	<u>95,521,217</u>
 Total Net Costs	 89,387,123	 100,386,132
 Costs Not Assigned to Program	 0	 0
Less: Earned Revenues Not Attributed to Programs	<u>250,073</u>	<u>71,418</u>
 Net Cost of Operations	 <u>\$9,544,793,031</u>	 <u>\$9,396,322,755</u>

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	FY 2005		FY 2004	
	CUMULATIVE RESULTS OF OPERATIONS	UNEXPENDED APPROPRIATIONS	CUMULATIVE RESULTS OF OPERATIONS	UNEXPENDED APPROPRIATIONS
NET POSITION - BEGINNING BALANCES	\$747,800,855	\$12,806,549	\$590,284,784	\$12,351,942
ADJUSTMENTS	(2,000)	2,000		
BEGINNING BALANCES, AS ADJUSTED	747,798,855	12,808,549	590,284,784	12,351,942
BUDGETARY FINANCING SOURCES:				
APPROPRIATIONS RECEIVED	0	550,150,000	0	554,150,000
OTHER ADJUSTMENTS	0	(2,762,265)	0	(1,347,242)
APPROPRIATIONS USED	548,394,259	(548,394,259)	552,348,151	(552,348,151)
NON - EXCHANGE REVENUE	4,574,069,212		4,462,484,215	
TRANSFERS OUT TO NRRIT (Note 10)	0		(586,000,000)	
TRANSFERS IN FROM NRRIT (Note 10)	809,000,000		1,564,044,000	
TRANSFERS IN/OUT WITHOUT REIMBURSEMENT	3,466,011,245		3,551,073,341	
OTHER BUDGETARY FINANCING SOURCES	0		0	
OTHER FINANCING SOURCES:				
IMPUTED FINANCING FROM COSTS ABSORBED BY OTHERS	8,618,630		9,891,651	
OTHER	(100,000,000)		(2,532)	
TOTAL FINANCING SOURCES	9,306,093,346	(1,006,524)	9,553,838,826	454,607
NET COST OF OPERATIONS	9,544,793,031		9,396,322,755	
NET CHANGE	(238,699,685)	(1,006,524)	157,516,071	454,607
NET POSITION - ENDING BALANCES	<u>\$509,099,170</u>	<u>\$11,802,025</u>	<u>\$747,800,855</u>	<u>\$12,806,549</u>

The accompanying notes are an integral part of these financial statements.

**RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Budgetary Resources:		
Appropriations Received	\$10,473,081,838	\$10,992,617,557
Net Transfers	(57,564)	(0)
Unobligated Balance, Beginning of Period	\$15,422,496	\$14,496,294
Adjustment to Unobligated Balance, Beginning of Period	0	(6,397)
Unobligated Balance, Net, Beginning of Period, as Adjusted:	<u>\$15,422,496</u>	<u>\$14,489,897</u>
Spending Authority From Offsetting Collections		
Earned	38,276,216	39,525,016
Recoveries of Prior Year Obligations	1,403,436	1,093,949
Temporarily Not Available Pursuant to Public Law	(488,638,162)	(585,210,375)
Permanently Not Available	<u>(2,762,264)</u>	<u>(1,347,242)</u>
Total Budgetary Resources	<u>\$10,036,725,996</u>	<u>\$10,461,168,802</u>
Status of Budgetary Resources:		
Obligations Incurred (Note 11)	\$10,021,518,410	\$10,445,746,306
Unobligated Balance	1,158,638	1,334,179
Unobligated Balance Not Available	<u>14,048,948</u>	<u>14,088,317</u>
Total Status of Budgetary Resources	<u>\$10,036,725,996</u>	<u>\$10,461,168,802</u>
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	\$826,267,661	\$818,785,835
Adjustments to Obligated Balance, Beginning of Period	11,760	(6,397)
Obligated Balance, Net, Beginning of Period:	<u>\$826,279,421</u>	<u>\$818,779,438</u>
Obligated Balance, Net, End of Period:		
Accounts Receivable	(96,809)	(96,122)
Undelivered Orders	(7,721,210)	(3,537,880)
Accounts Payable	<u>(841,819,043)</u>	<u>(822,633,659)</u>
Outlays: (Note 12)		
Disbursements	9,996,758,020	10,437,435,334
Collections	<u>(38,276,903)</u>	<u>(39,594,828)</u>
Subtotal	<u>9,958,481,117</u>	<u>10,397,840,506</u>
Less: Offsetting Receipts	<u>3,810,862,000</u>	<u>3,856,263,000</u>
Net Outlays	<u>\$6,147,619,117</u>	<u>\$6,541,577,506</u>

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF FINANCING
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$10,021,518,410	\$10,445,746,306
Less: Spending Authority from Offsetting Collections and Recoveries	(39,679,652)	(40,618,965)
Obligations Net of Offsetting Collections and Recoveries	9,981,838,758	10,405,127,341
Less: Distributed Offsetting Receipts	(3,810,862,000)	(3,856,263,000)
Net Obligations	<u>6,170,976,758</u>	<u>6,548,864,341</u>
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,618,630	9,891,651
Other Resources	(100,000,000)	0
Net Other Resources Used to Finance Activities	<u>(91,381,370)</u>	<u>9,891,651</u>
Total Resources Used to Finance Activities	6,079,595,388	6,558,755,992
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(4,101,029)	1,943,769
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	144,043	(454,289)
Resources That Finance the Acquisition of Assets	(426,382)	(386,607)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	3,368,862,000	2,835,263,000
Total Resources Used to Finance Items Not Part of Net Cost of Operations	<u>3,364,478,632</u>	<u>2,836,365,873</u>
Total Resources Used to Finance Net Cost of Operations	9,444,074,020	9,395,121,865
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	4,630	328,998
Other	221,728	223,334
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>226,358</u>	<u>552,332</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	492,653	651,312
Revaluation of Assets or Liabilities	0	(2,754)
Other	100,000,000	0
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>100,492,653</u>	<u>648,558</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	<u>100,719,011</u>	<u>1,200,890</u>
Net Cost of Operations	<u><u>\$9,544,793,031</u></u>	<u><u>\$9,396,322,755</u></u>

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements: Fiscal Years Ended September 30, 2005 and 2004

1. Summary of Significant Accounting Policies

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the RRB as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. OMB guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2005 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2005. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by FASAB.

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions), are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Our authority to use these collections is 45 USC §231(F)(c)(1).
- Social Security Equivalent Benefit Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Our authority to use these collections is 45 USC §231N-1(c)(1).
- Dual Benefits Payments Account (0111) funds the phase-out costs of certain vested dual benefits from general appropriations. Our authority to use these collections is 45 USC §231(N)(d).
- Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. This account has no basis in law.
- Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the Railroad Retirement Account, the Social Security Equivalent Benefit Account, and the Railroad Unemployment Insurance Trust Fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Our authority to use these collections is 45 USC §360.
- Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.
- Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Our authority to use these collections is Public Law 108-7.
- Savings Bonds Allotment (6050), and City and State Taxes (6275) were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting

As required by law, the Dual Benefits Payments Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with SFFAS No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

E. Social Security Administration Payments

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. During fiscal year 2005, the RRB paid benefits on behalf of SSA (for which the RRB is reimbursed).

F. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Treasury, excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and (5) sequestration or rescission of appropriations.

2. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2005	2004
A. Fund Balances:		
(1) Trust Funds	\$63,075,571	\$26,208,366
(2) Appropriated Funds	11,802,026	12,808,550
(3) Other Fund Types	10,783	36,851
Total	<u>\$74,888,380</u>	<u>\$39,053,767</u>
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	\$ 1,285,883	\$ 394,142
(b) Unavailable	10,613,755	12,512,020
(2) Obligated Balance not yet Disbursed	62,977,959	26,110,754
(3) Non-Budgetary FBWT	10,783	36,851
Total	<u>\$74,888,380</u>	<u>\$39,053,767</u>

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

3. Investments

On September 30, 2005 and 2004, the book values of the RRB's investments, including accrued interest, totaled \$1,265,204,565 and \$1,304,375,721, respectively. The balance on September 30, 2005, consisted of \$1,262,628,000 in 3.875 percent par value specials (with market value equal to face value) maturing on October 3, 2005, and \$2,576,565 in accrued interest. The balance on September 30, 2004, consisted of \$1,302,163,000 in 3.5 percent par value specials (with market value equal to face value) maturing on October 1, 2004, and \$2,212,721 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The NRRIT was established pursuant to Section 105 of the RRSIA of 2001, enacted December 21, 2001. The NRRIT is to manage and invest the assets of the Railroad Retirement (RR) Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, trust fund balances not immediately required for the payment of benefits could only be invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided for in Section 15(e) of the RRA of 1974. The assets held and managed by the NRRIT are not included in the investment balances presented on the RRB's financial statements.

4. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2005	2004
Financial Interchange – Principal	\$3,505,500,000	\$3,579,300,000
Financial Interchange – Interest	135,800,000	133,000,000
Department of Labor	94,820,436	86,208,934
Social Security Administration - OASI/DI Benefits	181,458	148,705
Total	<u>\$3,736,301,894</u>	<u>\$3,798,657,639</u>

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2005	2004
Accounts receivable - Benefit overpayments	\$32,029,588	\$30,307,173
Accounts receivable – Past due RUI contributions and taxes	34,249	298
Accounts receivable - Interest, penalty & administrative costs	356,309	414,011
Total	<u>\$32,420,146</u>	<u>\$30,721,482</u>
Less: Allowances for doubtful accounts	<u>4,984,898</u>	<u>4,596,590</u>
Net Total	<u>\$27,435,248</u>	<u>\$26,124,892</u>

The RRB's September 30, 2005, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of \$32,420,146 includes \$26,776,927 (82.6%) in railroad retirement program receivables and \$5,643,219 (17.4%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is \$4,984,898. This includes \$4,166,489 (83.6%) for the railroad retirement program and \$818,409 (16.4%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

5. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

6. Property and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is \$5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

Classes of Fixed Assets	Service Lives	At September 30, 2005		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,475,289	\$ 176,498
ADP software	5 years	19,467,854	19,249,268	218,586
Equipment	5-10 years	5,159,690	4,842,002	317,688
Internal-Use Software in Development		869,271	0	869,271
		<u>\$28,148,602</u>	<u>\$26,566,559</u>	<u>\$1,582,043</u>

Classes of Fixed Assets	Service Lives	At September 30, 2004		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,406,264	\$ 245,523
ADP software	5 years	19,467,854	19,020,477	447,377
Equipment	5-10 years	5,349,732	4,845,002	504,730
Internal-Use Software in Development		682,283	0	682,283
		<u>\$28,151,656</u>	<u>\$26,271,743</u>	<u>\$1,879,913</u>

7. Other Assets

Other assets at September 30 consisted of:

	2005	2004
Advances to employees for health insurance and Thrift Savings Plan contributions	\$14,171	\$ 886
Advances for transit program	28,515	28,515
	<u>\$42,686</u>	<u>\$29,401</u>

8. Liabilities

Liabilities at September 30 consisted of:

	2005	2004
Intragovernmental:		
Other - Unfunded Federal Employees' Compensation Act Liability	\$ 336,911	\$ 371,248
Public:		
Other - Accrued Unfunded Leave	\$ 6,334,350	\$ 6,329,719
Total Liabilities Not Covered by Budgetary Resources	\$ 6,671,261	\$ 6,700,967
Total Liabilities Covered by Budgetary Resources	4,577,981,309	4,402,936,376
Total Liabilities	<u>\$4,584,652,570</u>	<u>\$4,409,637,343</u>

• *Debt*

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	2005	2004
Beginning Balance, Principal	\$2,962,200,000	\$2,953,800,000
New Borrowing	3,251,000,000	3,241,000,000
Repayments	(3,240,100,000)	(3,232,600,000)
Ending Balance, Principal	2,973,100,000	2,962,200,000
Accrued Interest	68,735,141	64,469,568
Total	<u>\$3,041,835,141</u>	<u>\$3,026,669,568</u>

• *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of \$9,794,148 and \$9,400,058, at September 30, 2005 and 2004, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue

date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

	2005	2004
Accrued Unfunded Liabilities	\$ 6,334,350	\$ 6,329,719
Accrued Payroll	2,758,875	2,580,535
Accrued RRB Contributions – TSP	51,897	80,883
Withholdings Payable	24,876	23,675
Contingent Liability (see Note 13 for details)	283,000,000	172,000,000
Other	71,902	(3,308)
Total	<u>\$292,241,900</u>	<u>\$181,011,504</u>

9. Intragovernmental Costs and Exchange Revenue

	2005	2004
Railroad Retirement (RR) Program		
Intragovernmental Costs	\$ 191,475,166	\$ 201,251,356
Public Costs	9,272,039,088	9,101,110,082
Total RR Program Costs	<u>\$9,463,514,254</u>	<u>\$9,302,361,438</u>
Intragovernmental Earned Revenue	\$ 7,245,977	\$ 5,693,915
Public Earned Revenue	612,296	659,482
Total RR Program Earned Revenue	<u>\$ 7,858,273</u>	<u>\$ 6,353,397</u>
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	\$ 4,580,665	\$ 4,864,915
Public Costs	114,228,720	128,280,100
Total RUIA Program Costs	<u>\$ 118,809,385</u>	<u>\$ 133,145,015</u>
Intragovernmental Earned Revenue	\$ 0	\$ 0
Public Earned Revenue	29,422,262	32,758,883
Total RUIA Program Earned Revenue	<u>\$ 29,422,262</u>	<u>\$ 32,758,883</u>

These totals do not include \$250,073 of earned revenues not attributable to either program.

10. Transfers To/From NRRIT

The NRRIT was established pursuant to Section 105 of the RRSIA that was signed into law on December 21, 2001, with an effective date of February 1, 2002. See Financial Highlights for more details pertaining to NRRIT.

In fiscal year 2005, the RRB did not make any transfers to the NRRIT. Transfers of \$586 million, \$19.188 billion, and \$1.502 billion were made to the NRRIT in fiscal years 2004, 2003, and 2002, respectively.

During fiscal year 2005, the NRRIT transferred a total of \$809 million to the RR Account. This amount was transferred by the NRRIT for the payment of railroad retirement benefits.

11. Direct and Reimbursable Obligations

	2005	2004
Direct Obligations	\$10,013,591,916	\$10,439,521,800
Reimbursable Obligations	7,926,494	6,224,506
Total Obligations	<u>\$10,021,518,410</u>	<u>\$10,445,746,306</u>

12. Explanation of Material Difference Between the Statement of Budgetary Resources (SBR) and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, and outlays, as presented in the SBR, to amounts included in the Budget of the United States Government for the year ended September 30, 2004. A reconciliation was not performed for the period ended September 30, 2005, since the RRB's Performance and Accountability Report is published in November 2005 and OMB's MAX system will not have actual budget data until mid-December 2005. Budgetary resources, obligations incurred, and outlays were reconciled to the Program and Financing (P & F) Schedules.

The Budget of the United States Government and the RRB's SBR differ because the Budget of the United States Government includes the gains, losses, interest/dividends earned, and transfers in and out from the NRRIT. The President's budget included \$4,898.4 million in NRRIT transactions which are not included in the financial statements of the RRB and, therefore, are not included in the RRB's SBR. The RRB has no involvement in the compilation of the NRRIT's accounting information.

13. Contingent Liabilities

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. Based on a decision entered by the United States Claims Court on October 31, 2003, the RRB's legal counsel has determined that it is probable the RR and SSEB Accounts are contingently liable for an estimated amount with a range between \$90 million and \$105 million. The amount of \$90 million was recorded in fiscal year 2003 and is reflected on the fiscal year 2004 Balance Sheet under other liabilities. An additional \$11 million (for a total of \$101 million) was recorded in fiscal year 2005. The revised contingency amount is reflected on the fiscal year 2005 Balance Sheet under other liabilities (see note 8).
- Several Class 1 railroads are party to a suit claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suit has been pending the outcome of the above case. Due to the decision entered by the United States Claims Court on October 31, 2003, regarding the above case, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for an estimated amount of \$82 million. This amount was recorded in fiscal year 2003 and is reflected on the Balance Sheet for fiscal years 2004 and 2005 under other liabilities (see note 8).

The amount of contingent liability recorded in fiscal year 2003 for the above two actions was \$172,000,000. An additional \$11 million was recorded in fiscal year 2005 after the RRB's General Counsel revised its estimates.

- We also recorded a contingent liability in the amount of \$100,000,000, a forthcoming adjustment to the financial interchange for military service credits due SSA.

The total contingent liability recorded is \$283,000,000.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Based on prior experience, it is remote that the RR Account and the SSEB Account are contingently liable for an estimated amount of \$1.048 billion. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.